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SUBJECT: CHINA'S ENGAGEMENT: A SOUTH AFRICA VIEW

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¶1. Summary. According to Stellenbosch University's Centre for Chinese Studies Executive Director Martyn Davies, while the Western world views Africa as a "development burden", China sees Africa as a "commercial opportunity", which has focused China's strategy in developing a parallel market for energy security and commodities. China's design is to monopolize the entire commodity chain, from mining, financing, processing, and shipping to developing new exchanges that will eliminate the middle man of the Western-dominated metal and mineral exchanges. In addition to this new parallel trading model, China is pursuing a coalition investment strategy manifested by targeted special economic zones (SEZ). Davies warns that the SAG needs to better engage with China and provide incentives to become a SEZ, or risk losing its leading role as the trade gateway to Africa. End Summary.

DRIVERS BEHIND CHINESE ENGAGEMENT

¶2. In a February 29 briefing organized by the American Chamber of Commerce for its members on the reorientation of Africa economic strategic relations, Stellenbosch University's Centre for Chinese Studies Executive Director Martyn Davies highlighted the drivers behind China's surge of interest in Africa's emerging markets. He noted that while the Western world views Africa as a "development burden", China sees Africa as a "commercial opportunity", which has focused China's strategy in developing a parallel market for energy security and commodities. According to Davies, China is excluded from Middle East oil reserves (apart from Iran) and is often blocked from open market purchases (like CNOOC's bid for Unocal, "vetoed" by the U.S. Congress), leaving Africa as the only option. Strong relations with Africa will also enable China to gain a toehold in the global economy and counter rising competition from Japan.

CHINA, INC.

¶3. Davies outlined China's strategy as the new "commercial player" on the block. China intends to create a parallel market controlled wholly by the Chinese (or "manipulated" as Davies cynically commented.) China's design is to monopolize the entire commodity chain, from mining, financing, processing, and shipping to developing new exchanges that will eliminate the middle man of the Western-dominated metal and mineral exchanges. Davies warned that the impact of the new "China, Inc." will be "trade and commodity market disruption" with rising concern from the traditional powers. In this regard, Davies disagreed with the recent Brenthurst Foundations trilateral Africa-China-US meeting's finding that

there is no strategic conflict between the U.S. and China in Africa.

SEZS AND COALITION INVESTMENT

¶4. In addition to this new parallel trading model, China is pursuing a coalition investment strategy manifested by targeted special economic zones (SEZ). Utilizing the success of economic zones in China, coupled with the European model of incentive packages, Davies stated that China is establishing mining, trading, manufacturing, assembly, and logistics hubs throughout Africa. At the same time, China is facilitating cooperation between several industries, such as banking, mining and oil, in each economic zone to form a coalition investment that can better dominate the market.

¶5. With an introduction of "if this doesn't scare you,"
Q5. With an introduction of "if this doesn't scare you,"
Davies unveiled an African map with a transportation corridor connecting the Atlantic and Indians Oceans via Tanzania and Angola. Davies explained that current shipping patterns were limited to the old North-South corridors established by the British and other colony holders. China is building the first East-West corridor that will be a new growth mode for Chinese development between the SEZs, and a major competitor to South Africa's trade routes.

IMPACT ON SOUTH AFRICA

¶6. South Africa has not been designated as an SEZ despite its role as the economic powerhouse and transportation hub

for sub-Saharan Africa. According to Davies, the SAG needs to better position itself to attract Chinese interest. Davies noted that Finance Minister Trevor Manuel will not offer incentives to obtain SEZ status and those incentives are necessary from China's perspective. In addition, South African manufacturers have faced stiff competition from Chinese imports, resulting in South-South "competition" rather than "cooperation." South Africa also risks squandering its position as the gateway to Africa with the opening of the East-West corridor.

¶7. Not only has South Africa failed to embrace China's interest in the region, it is wary of China's competitive edge and strategic tactics. As a result, the SAG tends to be reactive, not welcoming, to China's presence, resulting in an ad hoc approach, such as implementation of the January 2007-December 2008 textile quota (reftel). Center for Chinese Studies Research Manager Hannah Edinger told Trade and Investment Officer South Africa's reticence most likely arises from China's insistence on controlling the entire supply chain via Chinese-owned companies and its failure to localize, i.e., employ South Africans and tap into locally-owned suppliers.

¶8. On a broader scale, Davies stated that China's emergence on the African continent has called into question the relevance of the Anglo-Saxon capitalist model. China was able to lift 300 million people from poverty to middle class in 30 years. Africa is taking a closer look at whether China is a better role model than the traditional IMF-World Bank-Brettonwoods system.

SOUTH AFRICA AS CHINA'S GATEWAY?

¶9. Davies moderated a separate lecture one month earlier on January 29, entitled: China's Game: The Emerging Super Dragon" by Anglo American Advisor Clem Sunter. Placing

China's formidable economy and growth in perspective, Sunter noted that China brings on line 100 Gigawatts of new electricity capacity per year (2.5 times South Africa's total capacity), eliciting inevitable jokes about state electricity supplier Eskom's supply woes. Davies and Sunter characterized South Africa as China's gateway to Africa and its rich resources, noting the acquisition of a 20 percent share in South African Standard Bank by the Industrial and Commercial Bank of China earlier this year. However, they noted that South Africa could lose this special relationship with China if it cannot assure infrastructure, power, services, etc. They questioned how good China's investment ultimately was for Africa given the likelihood that undeveloped countries would lack capacity and skill to negotiate good deals with China.

¶10. These observers stress that China is changing the rules and considers Africa its continent of choice. China does not ask about human rights and democracy; it just asks are if there are resources and locks up an advantageous deal.

COMMENT

¶11. China's relations with South Africa differ from China's relations with the rest of Africa. China is not attempting to invest in the mining and resource sector here. Instead, China is pairing up with large South African companies, such as Standard Bank, to gain better access to the rest of Africa. Otherwise, it is just a source of cheap imports that threaten local manufacturers.
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